

# Budget Brief – Tax Administration Line Item

NUMBER EDR-14-07

## SUMMARY

The mission of the Utah Tax Commission is to “collect revenue for the state of Utah and local governments and to equitably administer tax and assigned motor vehicle laws.” In addition to handling the revenue from over 40 taxes, surcharges, and fees, the Commission is responsible for registering automobiles and regulating the automobile dealer industry. The Tax Administration Line Item accounts for over 80 percent of the Commission’s total budget. The line item includes 10 programs: Administration, Auditing, Multi-State Compact, Technology Management, Tax Processing, Seasonal Employees, Tax Payer Services, Property Tax, Motor Vehicles, and Motor Vehicle Enforcement.

The Analyst has analyzed the 3 largest programs in the Administration Line Item (Motor Vehicles, Auditing, and Technology Management) in separate budget briefs. Details for the remaining programs are provided below.

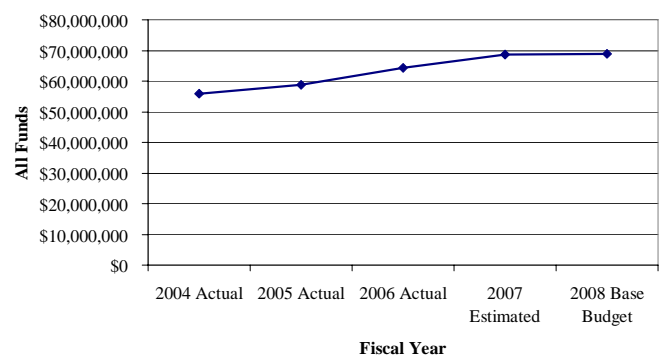
### Administration Division

The Administration Division includes the Commissioners’ and Executive Director’s Offices, which provide administrative support for the entire Tax Commission. The Commissioners’ Office develops tax policy and rules, provides an appeals process for taxpayers, performs internal investigations and audits, and carries out public relations functions. The Commissioners’ Office also oversees the Economic and Statistical Unit, which develops revenue forecasts, prepares fiscal impact estimates of proposed legislation, and produces statistical reports. The Executive Director’s Office is responsible for the day-to-day operations of the agency, including financial accounting, human resource management oversight, planning and budgeting, coordination of legislative issues, drafting of legislation and bulletins, IRS liaison functions, and tax fraud case development.

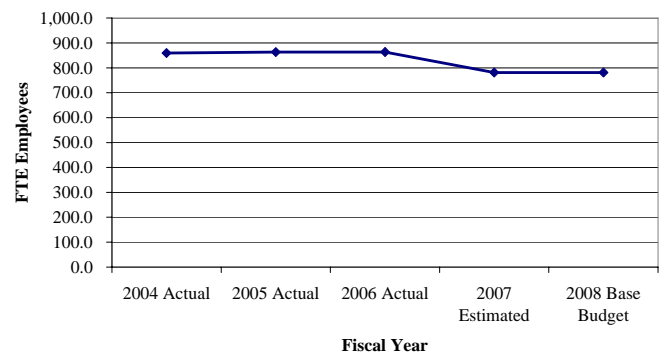
### Multi-State Tax Compact

Under the Multi-State Tax Compact, the Utah Tax Commission works with other state governments in the Multi-State Tax Commission (MTC) to equitably and efficiently administer tax laws that apply to multi-state and multinational enterprises. Current focuses of the MTC are joint auditing of multi-state businesses and the National Nexus Program, which facilitates information exchange among the states to identify reporting and filing inconsistencies.

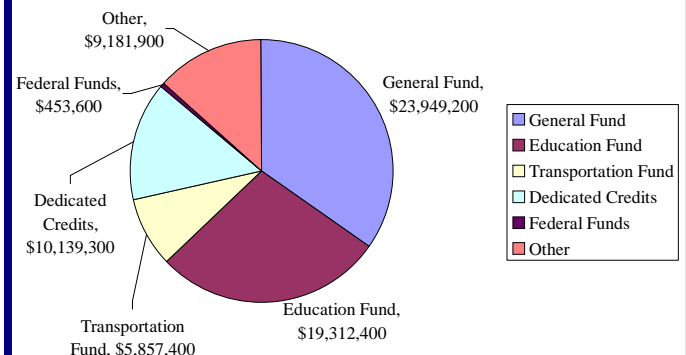
**Figure 1: Tax Commission - Tax Administration - Budget History**



**Figure 2: Tax Commission - Tax Administration - FTE History**



**Figure 3: Tax Commission - Tax Administration - FY 2008 Funding Mix**



***Tax Payer Services***

Tax Payer Services promotes voluntary compliance with Utah Statutes through educational outreach and customer service. Tax Payer Services employees provide front-line contact to taxpayers, assisting them in resolving tax issues. The program is also responsible for the collection of delinquent taxes and aims to resolve outstanding balances as they become delinquent since funds are more easily collected when the time they are allowed to remain unpaid is minimal.

***Seasonal Employees***

The Tax Commission uses a mix of General Fund, Uniform School Fund, and Sales and Use Tax Administrative Fees collections to fund 16 full-time-equivalent seasonal employee positions. The Processing Division utilizes these positions during periods of heavy workload; for example, temporary workers are hired during the spring for income tax returns and at the end of each quarter for business tax returns. The average hourly wage for these positions for FY 2007 varies between \$7.30 and \$8.13 an hour, depending on skills. When the Legislature appropriates funds for cost-of-living increases in its annual compensation package, the 16 Tax seasonal positions are included. Compensation package appropriations for benefit increases, however, do not apply to these positions, which have no attached benefits.

***Property Tax Division***

The Property Tax Division provides assistance and supervision for locally administered assessments to ensure fair and equitable property valuation and taxation. The Division provides auditing services for locally assessed personal property accounts, produces depreciation schedules, and ensures that locally assessed property values are at market value. It performs the assessment and apportionment of value for all mines, utilities, and railroad properties and is responsible for certification of tax rates and appraiser training and certification. The Division also administers "truth in taxation" and maintains written Standards of Practice for all aspects of local tax administration.

***Motor Vehicle Enforcement Division***

The Motor Vehicle Enforcement Division protects Utah citizens from motor vehicle fraud and theft. The Division licenses and regulates all Utah auto dealerships, salespeople, crushers, transporters, dismantlers and body shops. It also investigates motor vehicle fraud and enforces motor vehicle registration laws.

**ISSUES AND RECOMMENDATIONS*****Postage Rate Increases***

The United States Postal Services increased rates by 5.4 percent in January, 2006 and plans to increase rates again by 7.7 percent in May, 2007. The Commission has asked the Legislature to appropriate \$95,000 (\$63,300 General Fund and \$31,700 Uniform School Fund) supplemental one-time and \$237,500 (\$158,300 General Fund and \$31,700 Uniform School Fund) ongoing to cover the costs of postage rate increases.

***Sunsetting of Electronic Payment Fees Statute***

In November, the Government Operations Interim Committee unanimously voted to allow UCA 63-38a-105, *Electronic Revenue Collections*, to sunset on July 1, 2007. The statute authorizes state agencies to collect fee surcharges to cover the cost of electronic transactions such as credit card merchant fees, payment-portal charges, and on-line application development costs. The Fiscal Analyst suggests that provisions of the Budgetary Procedures Act govern changes to base fees charged by state agencies and provide sufficient legislative oversight of such fees in absence of UCA 63-38a-105. Electronic transaction fees for motor vehicle registrations, however, present a unique case because registration fees accrue to the Transportation fund. Since appropriations from the Transportation fund are capped, the Tax Commission will be unable to use collections to cover electronic transaction costs if electronic surcharges are included in the total registration fee. The Commission is seeking legislation during the 2007 General Session to address this unique case by allowing the continuation of the current electronic payment fee policies and procedures for motor vehicle and motor vehicle enforcement fees.

See Issue Brief GAA-07-002, *Electronic Transaction Fees*, for more details.

### ***Motor Vehicle Enforcement Division Fees and Compensation***

Motor vehicle temporary permit and temporary sports event registration fees, which are set at \$6.75 in UCA 41-3-603, make up over 80 percent of funding for the Motor Vehicle Enforcement Division. Therefore, when the Legislature approves and appropriates funds for compensation and benefit cost increases for State employees in its annual compensation package, the division does not receive sufficient state funds to cover such increases. The Commission is seeking legislation during the 2007 General Session (SB 107, *Motor Vehicle Business Fee Amendments*, Senator Hillyard) to remove the temporary permit and sports event registration fees from statute so that the Legislature may set their amounts annually during the budget process. Should SB 107 pass, the Commission plans to request up to \$0.75 increase in these fees to fund pay increases as authorized for all state employees.

### ***Nonlapsing Balances***

Over the past several years, the Legislature has approved the Tax Commission's requests for authority to carry forward unexpended year-end balances for costs related to the modernization of tax and motor vehicle system processes. The Legislature has also approved the carry-forward of stream-lined sales tax implementation and electronic transaction-related funding.

Details on Nonlapsing Balances are provided in Issue Brief GAA-07-004, *Nonlapsing Balances*. The agency has requested that the Legislature approve intent language during the 2007 General Session that authorizes the Tax Commission to carry forward unexpended year-end balances for costs directly related to tax system modernization and unexpended funds related to the implementation of Streamlined Sales Tax legislation. Should the Legislature approve these requests, the Analyst recommends continuing to monitor the accrual and expenditure of non-lapsing appropriations.

### **ACCOUNTABILITY DETAIL**

The Tax Commission has identified four department-wide objectives: *Do it Right the First Time* (effectively communicate and build working relationships with all customers), *Better Tools for Better Results* (deliver quality products and services), *Allow Great People to do Great Work* (create and maintain a work environment where people can excel and productivity is enhanced), and *Make Compliance Easier and Evasion Harder*. Specific accountability indicators are provided in separate budget briefs for the 3 largest programs in the Administration Line Item.

### **BUDGET DETAIL**

Figures 1 through 3 on the page 1 and the table on page 4 show budget details for the Administration Line Item. The General Fund and Uniform School Fund account for over 60 percent of the line item's budget. Dedicated Credits Revenue and the Sales and Use Tax Administrative Fees General Fund Restricted Account are also major sources of finance. The Tax Commission withholds up to 1.5 percent of the sales and use tax collections that it gathers for cities, towns, and counties, and deposits these monies into the Sales and Use Tax Administrative Fees Account. Appropriations may be made from this account for sales tax administration, see UCA 59-12-206 for specific details.

Notable changes in expenditures since FY 2006 include decreases to personal service expenditures and increases to current expense expenditures on account of changes to the accounting of human resource and information technology services. In Fiscal Year 2007, the Tax Administration Division transferred 7 full-time-equivalent employees to the Department of Human Resource Management following the consolidation of all human resource management functions statewide as authorized by H.B. 319, *Expansion of Department of Administrative Services Oversight to Include Human Resource Management* (General Session 2005) and H.B. 269, *Human Resource Management Amendments* (General Session 2006). The Tax Technology Management Division transferred an additional 75 full-time-equivalent employees to the Department of Technology Services in accordance with H.B.

49, Department of Technology Services Personnel Transfer – Supplemental Appropriation (General Session 2006).

Tax Commission - Tax Administration						
Sources of Finance	FY 2006 Actual	FY 2007 Appropriated	Changes	FY 2007 Revised	Changes	FY 2008* Base Budget
General Fund	22,180,500	23,949,200	0	23,949,200	0	23,949,200
General Fund, One-time	0	(63,300)	0	(63,300)	63,300	0
Uniform School Fund	18,151,400	19,312,400	0	19,312,400	0	19,312,400
Uniform School Fund, One-time	0	(48,800)	0	(48,800)	48,800	0
Transportation Fund	5,857,400	5,857,400	0	5,857,400	0	5,857,400
Federal Funds	478,600	434,000	19,600	453,600	0	453,600
Dedicated Credits Revenue	8,197,800	8,243,600	647,500	8,891,100	1,248,200	10,139,300
GFR - Sales and Use Tax Admin Fees	7,491,300	7,958,500	0	7,958,500	17,600	7,976,100
TFR - Uninsured Motorist I.D.	133,800	133,800	0	133,800	0	133,800
Transfers	150,200	0	102,300	102,300	0	102,300
Beginning Nonlapsing	8,874,300	7,466,900	(292,800)	7,174,100	(2,243,400)	4,930,700
Closing Nonlapsing	(7,174,100)	(6,059,500)	1,128,800	(4,930,700)	969,700	(3,961,000)
<b>Total</b>	<b>\$64,341,200</b>	<b>\$67,184,200</b>	<b>\$1,605,400</b>	<b>\$68,789,600</b>	<b>\$104,200</b>	<b>\$68,893,800</b>
<b>Programs</b>						
Administration Division	8,087,900	6,771,700	502,000	7,273,700	(188,300)	7,085,400
Auditing Division	9,190,200	10,108,800	152,500	10,261,300	26,900	10,288,200
Multi-State Tax Compact	203,000	205,700	0	205,700	0	205,700
Technology Management	9,505,700	9,713,400	(20,500)	9,692,900	19,800	9,712,700
Tax Processing Division	7,340,900	8,395,200	89,500	8,484,700	15,000	8,499,700
Seasonal Employees	353,100	350,800	0	350,800	0	350,800
Tax Payer Services	8,856,100	9,571,400	(99,700)	9,471,700	25,400	9,497,100
Property Tax Division	3,890,500	4,584,000	38,900	4,622,900	11,100	4,634,000
Motor Vehicles	14,390,500	14,789,300	910,700	15,700,000	194,000	15,894,000
Motor Vehicle Enforcement Division	2,523,300	2,693,900	32,000	2,725,900	300	2,726,200
<b>Total</b>	<b>\$64,341,200</b>	<b>\$67,184,200</b>	<b>\$1,605,400</b>	<b>\$68,789,600</b>	<b>\$104,200</b>	<b>\$68,893,800</b>
<b>Categories of Expenditure</b>						
Personal Services	46,244,400	51,265,200	(6,682,400)	44,582,800	137,900	44,720,700
In-State Travel	210,100	208,700	22,500	231,200	0	231,200
Out of State Travel	502,900	497,900	29,000	526,900	0	526,900
Current Expense	10,716,400	11,023,500	1,496,100	12,519,600	166,300	12,685,900
DP Current Expense	5,894,600	3,026,700	7,099,000	10,125,700	(25,000)	10,100,700
DP Capital Outlay	672,000	360,700	216,700	577,400	(175,000)	402,400
Capital Outlay	46,200	801,500	(601,500)	200,000	0	200,000
Other Charges/Pass Thru	0	0	26,000	26,000	0	26,000
Operating Transfers	54,600	0	0	0	0	0
<b>Total</b>	<b>\$64,341,200</b>	<b>\$67,184,200</b>	<b>\$1,605,400</b>	<b>\$68,789,600</b>	<b>\$104,200</b>	<b>\$68,893,800</b>
<b>Other Data</b>						
Budgeted FTE	863.5	863.5	(82.0)	781.5	0.0	781.5

\*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

## LEGISLATIVE ACTION

The Analyst recommends the following budget action for the Tax Commission Administration Line Item:

- Adopt a base budget totaling \$68,893,800 for the Administration Line Item.

Actions requested by the Tax Commission are listed in Issue Brief GAA-07-001, *Tax Commission Budget Requests*.